

Message Text

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SUBJ: FINNISH CONSTRUCTION PROJECTS IN SOVIET KARELIA

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BEGIN SUMMARY. FINNISH PROJECTS IN USSR ARE BASICALLY TURN-KEY CONSTRUCTION OPERATIONS UTILIZING EXCLUSIVELY FINNISH LABOR AND MANAGEMENT. ROLE OF FINNISH COMPANIES IN POST-CONSTRUCTION PHASE LIMITED TO FULFILLMENT OF CONTRACTUAL GUARANTEES ON EQUIPMENT. CONTRACTS HAVE NOT AS YET INCLUDED ANY OBLIGATION (OR SPECIAL PROVISIONS) FOR PURCHASE BY FINLAND OF PRODUCTION FROM COMPLETED PROJECTS, BUT POSSIBILITY EXISTS THAT AT FINNISH INITIATIVE, PURCHASING OPTIONS FOR KOSTAMUS PRODUCTION WILL BE INCLUDED IN FINAL PHASE CONTRACT. END SUMMARY

1. CONTRACTS FOR PROJECTS ARE NEGOTIATED FOR EACH OF SEVERAL PHASES, AND TERMS CAN CHANGE FROM NEGOTIATION TO NEGOTIATION. HOWEVER, BOTH SIDES SEEM TO PREFER FINNISH LABOR (THE ABILITY OF THE FINNS TO PROVIDE ALL OF THE LABOR IS A MAJOR ADVANTAGE FROM SOVIET VIEWPOINT SINCE IT MINIMIZES EXPOSURE OF RUSSIAN WORKERS TO WESTERNERS), AND THE RUSSIANS HAVE TO BUY MANAGEMENT

AND TECHNOLOGY IN ANY CASE, SO THE BASIC PATTERN IS UNLIKELY TO CHANGE. THE FINNISH COMPANIES TREAT THE RUSSIAN TENDERS MUCH AS ANY OTHER (SO MUCH SO THAT A LARGE ENGINEERING-CONSTRUCTION FIRM ADMINISTERS PROJECTS IN SOVIET KARELIA

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PAGE 02 HELSIN 00346 210155Z

FROM ITS DOMESTIC DEPARTMENT), AND BASICALLY CONSIDER

THEMSELVES SELLING A PRODUCT RATHER THAN PARTICIPATING IN A JOINT VENTURE. THE CONTRACTS CONTAIN THE NORMAL PERFORMANCE CLAUSES, SO THE COMPANIES, AND PARTICULARLY THE FIRMS WHICH SUPPLY MACHINERY, HAVE THE STANDARD POST-PROJECT RESPONSIBILITIES DURING THE BREAKING-IN AND GUARANTEE PERIODS. WITH THAT EXCEPTION, WHEN THE KEY IS TURNED, THE RUSSIANS TAKE OVER MANAGEMENT AND LABOR.

2. AS A RULE THE PRODUCTION FROM THE COMPLETED PROJECT IS NOT THE CONCERN OF THE FINNISH COMPANIES. A SMALL PART OF THE PAYMENT FOR PAAJARVI IS IN THE FORM OF SEMI-FINISHED PRODUCTION, BUT THE BULK OF THE PRODUCTION OF PAAJARVI AND SVETOGORSK WILL BE PROCESSED WOOD PRODUCTS FOR WHICH FINLAND HAS NO USE. NOR HAVE THE FINNS BEEN ASKED, SO FAR AS IS KNOWN, TO HELP MARKET THE PRODUCTION. THE KOSTAMUS PROJECT WILL PRODUCE ENRICHED IRON ORE, AND THE FINNS ARE SEEKING TO BUY A SUBSTANTIAL PART OF THE PRODUCTION FOR USE IN THE RAAHE STEEL PLANT (OF STATE-OWNED RAUTARUUKKI OY). THE COMPANY CANNOT MEET ITS ROLLED STEEL DEMAND FROM DOMESTIC SOURCES OF IRON ORE, BUT ACCORDING TO TWO SOURCES, THE PURCHASE OF KOSTAMUS PRODUCTION IS UNRELATED TO CONSTRUCTION DECISIONS.

3. IT IS UNLIKELY THAT FINNISH NATIONALS WILL HAVE ANY CONTINUING ROLE IN THE COMPLETED PROJECTS WHICH, SINCE THEY ARE NOT JOINT VENTURES AS SUCH, ARE NOT USEFUL MODELS FOR WESTERN COOPERATIVE VENTURES.
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